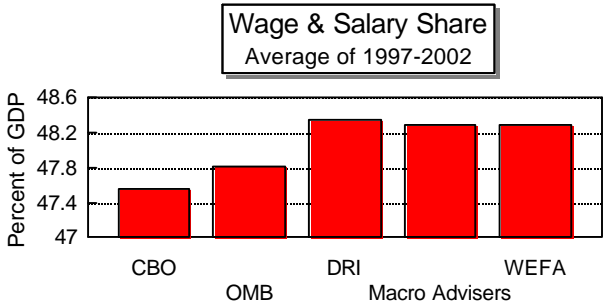


ECONOMICS

INCOME SHARE FORECASTS

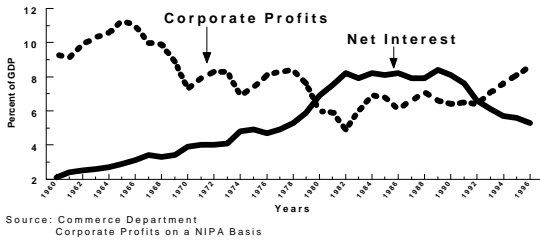
- Income shares are not a well-publicized part of most economic forecasts, although they do have notable deficit impact. These shares depict the breakdown of national income between wages & salaries, benefits, corporate profits, proprietors’ income, rental income and net interest. They are expressed as a share of GDP.
- If all of the above areas were taxed the same, the division between income categories would make little budget difference. However, this is not the case. Wages & salaries and corporate profits are taxed at a higher effective rate than the others. Thus the higher the projected wage & salary and corporate profit share, the higher the projected revenue stream.
- Income share are quite volatile and hence there is a relatively large margin of error surrounding these forecasts. In light of this, both CBO’s and OMB’s income shares are reasonable and are actually quite close. Indeed, they are both within the range of error on these forecasts. Despite this economic closeness, however, OMB’s slightly higher income share forecasts produce a cumulative \$110 billion difference between CBO and OMB deficit estimates for 1997-2002.
- There are several reasons why CBO has lower taxable income shares than OMB. In the case of wages & salaries, CBO believes that this share will fall somewhat over the budget window as benefits costs begin to grow faster than wages. In contrast, OMB and major private forecasters expect the wage & salary share to remain relatively stable over the budget time window.
- The growth in benefits costs has been falling steadily since 1990, as employees shifted to managed care plans. Indeed, benefit growth was less than wage growth in both 1995 and 1996 as measured by the Employment Cost Index. Some gentle rise in benefits costs may be expected going forward now that the majority of employees have already made the switch to managed care plans. However, cost growth could be tempered by continued competition amongst health care providers. A recent Foster Higgins survey of employer benefits projects benefits costs to rise 4 percent in 1997 -- this is slightly under most projections for 1997 wage growth.
- It is interesting to note that the major private forecasters project a higher average wage & salary share over the budget window than do either CBO or OMB. This stems in part from the private forecasters’ different assumptions about the NIPA statistical discrepancy.



Source: CBO Jan97, OMB Feb97, DRI Mar97, Macro Advisers Mar97, WEFA Mar9

- With regard to corporate profits, CBO expects this share to slip more over the budget window than OMB does. One main reason is that CBO expects companies’ net interest costs as a share of GDP to begin rising again, in a reversion to historical trend. Yet, with interest rates projected to fall over the budget window, it is somewhat unclear which force will dominate.

Corporate Profits & Net Interest
as a Share of GDP



- It is hard to compare CBO’s and OMB’s corporate profit share forecasts with the major private forecasters, since only CBO and OMB assume a balanced budget path. (Since a balanced budget would reduce interest rates, this tends to boost corporate profits. Of note, CBO expects a balanced budget to boost the corporate profit share by 0.6 percentage points to 8.1 percent in 2002).

INFORMED BUDGETEER

THE STEALTH TAX

- Last week, taxpayers were forced to pay attention to the amount of income taxes they pay. There are other taxes, however, that for many families add up to a lot more than the income taxes they owe -- payroll taxes.
- Payroll taxes have snuck up on wage earners over the past four decades. In 1962, individual income taxes comprised 46 percent of total federal tax collections; payroll taxes were 17 percent of total collections. Contrast this with 1996, when individual income taxes made up 45 percent and payroll taxes were 35 percent of the total.
- Most economists believe that the burden of both the employer and employee share of payroll taxes is borne by the employee. With this in mind, the table shows that a family of four at median income paid more in income taxes than in payroll taxes during the 1960s and 1970s. In the mid-80s, the payroll tax burden overtook the income tax burden for the median family.

Income, Income Tax Liability, and Payroll Tax Liability (For a Median Income Family)					
	1962	1972	1982	1992	1995
Median Income ¹	\$6,756	\$12,808	\$27,619	\$44,615	\$49,531
Income Tax Liability ²	736	1,359	3,792	4,412	4,947
Pay roll Tax Liability ³	300	936	3,700	6,826	7,578
Income tax+/- Payroll tax	436	423	92	-2,414	-2,631

¹Family of Four, as reported by the Census Bureau.
²Assumes total family income is comprised of wage income, one family member earned that income and the family used the standard deduction.
Employee plus employer share.
SOURCE: JCT, (JCS-8-97) Staff Review on Impact on Individuals and Families of Replacing Federal Income Tax, April 14, 1997.

AND YOU THOUGHT THE 4.3 CENTS GAS TAX
WAS FOR DEFICIT REDUCTION

- A provision in the 1990 Omnibus Budget Reconciliation Act imposed a 2.5 cents per gallon tax on highway and rail transportation fuels that was deposited into the General Fund for “deficit reduction.” This tax was scheduled to expired September 30, 1995.
- The 1993 Omnibus Budget Reconciliation Act extended the 2.5 cents tax through September 30, 1999, but deposited the revenues from the tax on highway uses into the Highway Trust Fund (2.0 cents into the Highway Account and 0.5 cent into the Mass Transit Account) beginning October 1, 1995. The 1993 Act also imposed a new, permanent 4.3 cents per gallon tax on transportation fuels (this time including inland waterway and commercial aviation fuels after September 30, 1995).

- With ISTEA reauthorization around the corner, several members want

to shift the 4.3 cents per gallon “deficit reduction” tax to the Highway Trust Fund or to other new funds.

- Congressmen Petri and Rahall have introduced a bill to shift the 4.3 to the Highway Trust Fund. Ways and Means Chairman Archer says he supports such a shift, as does House Transportation and Infrastructure Committee Chairman Bud Shuster and the Committee’s membership.
- Senators Baucus and Warner have proposed the shift as well. Ranking Finance member Moynihan says he supports it, as does Minority Leader Daschle.
- Senators Roth and Moynihan propose giving 0.5 cent of the 4.3 cents to Amtrak. Senators D’Amato and Dodd have talked about directing the revenues from the 4.3 cents tax to the states, who then could use the funds to leverage transportation investments from private sector sources.
- Senator Conrad would use the 4.3 cents tax to establish an Infrastructure Bank Account within the Highway Trust Fund that would allow states to use the funds for highway investments as well as investments in aviation, housing, or schools.
- Senator Graham has proposed Assistance to States for Schools, Environment, and Transportation Programs (ASSET). The 4.3 cents tax would be deposited into the National Infrastructure Trust Fund then distributed to states for construction projects, school maintenance, water and sewage systems, etc. He also proposes giving 0.5 cent to the Intercity Passenger Rail Trust Fund through 2002.
- Seems it’s just not cool anymore to want to reduce the deficit. *The Bulletin* expects further ideas on how to spend the 4.3 cents. We’ll keep you posted.

CLASSIFYING COSTS

- Recently the Report of the Commission on Protecting and Reducing Government Secrecy, which was chaired by Senator Patrick Moynihan and Congressman Larry Combest -- received a substantial amount of public attention.
- However, an earlier report, the September 16, 1996 Report to the President from the Information Security Oversight Office did not receive any public notice. Taken together, however, these two reports are very important; they paint a fascinating picture of the size and nature of the apparatus of the federal government to protect what should be kept secret -- and sometimes what should not.
- In 1995 over 3 million actions were taken to classify information. The system is policed by self-inspections, of which there were 10,236 in fiscal year 1994; these self-inspections found 8,622 infractions; for self-inspections. The *Bulletin* thinks this is a high rate of discovery of problems.
- All this costs \$2.7 billion to the government and \$2.9 billion to industry for a total of \$5.6 billion. These costs do not include the CIA; that data can only be provided to properly cleared congressional staff by the House or Senate Intelligence Committees. It’s not clear whether this data includes the National Reconnaissance Office, the National Security Agency and other obscure -- but large -- intelligence agencies that comprised a publicly reported \$30 billion intelligence community last year.
- The Commission on Protecting and Reducing Government Secrecy seemed to think that it is time to change. They reported, “It is time to reexamine the long-standing tension between secrecy

and openness, and develop a new way of thinking about government secrecy as we move into the next century.”

- The Commission had several major findings and recommendations:
 - There should be a “statute that sets forth the principles for what may be declared secret” and when it should be declassified.
 - A national declassification center is needed to “to coordinate how information that no longer needs to be secret will be made available to the public” instead of permitting agencies to decide which of their own secrets should be revealed.
 - The Commission went on to advocate “A more thoughtful approach” to declassification which was characterized as a “random procedure”.
 - Resources should be reallocated to more important problems-- “the main threat today comes from trusted ‘insiders’ who already hold clearances and only later in their careers decide to commit espionage”.
 - Redundancies and lack of standard security procedures across agencies increase costs and inhibit coordination; these should at least be “reduced.”
 - There should be more awareness of and greater attention to the threats to automated information systems and the current lack of standards for protecting and managing these systems.
- These two reports describe a large and costly system that could apparently use some significant changes. Last year, there was a Commission on the Roles and Capabilities of the US Intelligence Community, that reported many findings and recommendations to reform the intelligence community. However, it seemed that very few of that Commission’s ideas made it through the system. It will be interesting to see what kind of reception this Commission’s ideas receive.

QUOTE OF NOTE

“The scene is surreal: While the talks go on inside the office, a mob of reporters and Capitol police, whose headquarters is across the corridor, mill around outside. Instead of the magnificent ambience of tiled Capitol floors and frescoed walls, this little-known hallway features a cement floor, brick walls painted yellow and gray, and a ceiling hidden by plumbing, electrical conduits, and ventilation ducts.”

Lawrence J. Goodrich, describing Senator Domenici’s hideaway, Christian Science Monitor, 4/17/97

CALENDAR

April 23, 1997: Government Affairs Committee will hold a hearing on the Biennial Budget and Appropriations Act. The hearing will be at 10 am in 342 Dirksen SOB.

👉CONGRATULATIONS to Mike and Margie Ruffner as they welcome their first child, Matthew Alessi Ruffner. Best wishes to Matthew, who became the second Budget Committee baby born this month when he arrived on April 13.